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Message Text

SECRET

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ORIGIN SS-25

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DRAFTED BY L:SMSCHWEBEL/ARA:AFISHLOW;TFARER/EB/FSE:DHART
APPROVED BY THE SECRETARY
D-DEPUTY SECRETARY
ARA-MR. ROGERS
EB-MR. ENDERS
L-MR. LEIGH
S/S - MR. BORG
---------- 053076
O R 092028Z OCT 75
FM SECSTATE WASHDC
TO AMEMBASSY CARACAS IMMEDIATE
INFO AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY LONDON

S E C R E T STATE 241105

EXDIS

E.O. 11652: GDS

TAGS:ENRG, VE

SUBJECT: DEMARCHE TO VENEZUELAN PRESIDENT ON OIL
NATIONALIZATIONS

TO THE AMBASSADOR FROM THE SECRETARY

1. I HAVE REVIEWED AND APPROVED THE INSTRUCTIONS DEVELOPED AT YOUR MEETING WITH THE DEPUTY SECRETARY AND THE BUREAUS CONCERNED AND ACCORDINGLY REQUEST YOU TO MAKE THE FOLLOWING POINTS ASAP TO THE PRESIDENT OF VENEZUELA.

2. THE USG HAS FOLLOWED THE PROCESS OF NATIONALIZATION OF OIL IN VENEZUELA WITH GREAT INTEREST AND UNDERSTANDING.
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WE REMAIN HOPEFUL OF A MUTUALLY SATISFACTORY SETTLEMENT

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WITH ALL OF THE COMPANIES. WE APPRECIATE THAT A CONTINUING, POST-NATIONALIZATION ROLE FOR THE COMPANIES IS PROJECTED, AND THAT VENEZUELAN OIL WILL CONTINUE TO FLOW TO THE U.S. BECAUSE OF OUR JOINT INTERESTS, THIS IS A PROSPECT WE WELCOME AND WISH TO ENCOURAGE.

3. IT DOES NOT, OF COURSE, FOLLOW THAT OUR TWO GOVERNMENTS HAVE A COMMON VIEW ABOUT APPROPRIATE STANDARDS OF COMPENSATION. WE DO NOT AGREE WITH THE STANDARD OF COMPENSATION SET OUT IN THE VENE-ZUELAN LAW. AT THE SAME TIME, WE RECOGNIZE AND RESPECT THE FACT THAT VENEZUELA DIFFERS.

4. WE PARTICULARLY WISH TO EMPHASIZE AT THIS POINT THE IMPORTANCE OF NEGOTIATING ONGOING CONTRACTUAL RELATIONS WITH ALL COMPANIES REGARDLESS OF SIZE. THE PRESIDENT WILL APPRECIATE THE PROBLEMS THAT WOULD BE POSED FOR THE USG SHOULD IT TURN OUT THAT THE LARGEST PRODUCERS ARE GIVEN ATTRACTIVE CONTRACTS WHILE SMALLER PRODUCERS RECEIVE VERY MUCH LESS OR NO CONTRACTS AT ALL. WE SEEK EQUITY FOR ALL PRODUCERS. THE CONTRACTS SHOULD BE OF SUBSTANTIAL DURATION OR RENEWABLE AT THE INSTANCE OF THE COMPANIES.

5. IN OUR VIEW, DEDUCTIONS FROM THE PAYMENTS TO BE MADE PURSUANT TO THE VENEZUELAN LAW SHOULD BE MADE IN AN EQUITABLE AND FAIR FASHION. IN PARTICULAR, IN OUR VIEW:

(A) FOR SOME OF THE COMPANIES, OUTSTANDING CLAIMS FOR DRAINAGE ARE QUITE SUBSTANTIAL IN AMOUNT. IN LIGHT OF THE FACTS THAT DRAINAGE WAS UNAVOIDABLE, DID NOT GIVE RISE TO LIABILITY AT THE TIME IT OCCURRED, THAT AT LEAST IN CERTAIN CASES DRAINAGE CLAIMS HAD BEEN SETTLED BY AGREEMENT WITH CVP FOR COMPENSATION TO BE AMORTIZED OVER THE REMAINING LIFE OF THE RELEVANT CONCESSION, AND OUR UNDERSTANDING THAT THE GOV UNIFORMLY ENDORSED CON-TRACTS PROVIDING THAT, IN THE EVENT OF THE PREMATURE

TERMINATION OF THE CONCESSIONS, DRAINAGE CLAIMS WOULD LAPSE, WE BELIEVE THAT DEDUCTIONS OUGHT TO BE NOMINAL.

(B) FOR ALL OF THE COMPANIES, THERE IS CONCERN THAT THE BONDS RECEIVED AS PAYMENT WILL CONSTITUTE YET FURTHER REDUCED COMPENSATION. IN GENERAL, IT WOULD SEEM TO US UNFAIR IF THE BONDS WERE OF SUCH

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DURATION OR THE RATE OF INTEREST SO LOW AS TO
REDUCE COMPENSATION SIGNIFICANTLY.

(C) THE REQUIREMENT THAT A PROPORTI0N OF THE
BONDS BE PLACED IN A GUARANTY FUND SHOULD NOT
WORK SO AS TO FURTHER DIMINISH THE REAL COMPENSATION
AFFORDED THE COMPANIES.
(D) THE FAILURE TO PROVIDE THE COMPANIES CREDIT
FOR THE BONUSES WHICH THEY PAID THE GOV FOR THE
RIGHTS TO EXPLORE AND PRODUCE IN CASES WHERE EXPLORA-
TION RESULTED IN COMMERCIAL FINDS COULD GENERATE
PROBLEMS WITH THE COMPANIES IF SIGNIFICANT IN AMOUNT.

6. FOR AMEMBASSY LONDON: WE ARE ALSO CONTEMPLATING
RAISING THE QUESTION OF COMPENSATION FOR AMERICAN
HOLDERS OF OVERRIDING ROYALTIES. WE SEPARATELY
SHALL ASK YOU TO EXPLORE WITH HMG WHETHER IT IS
PREPARED TO MAKE SUCH AN APPROACH ON BEHALF OF
BRITISH NATIONALS WHO ARE SUCH ROYALTY HOLDERS,
SINCE WE ARE INCLINED TO RAISE THIS WITH THE GOV
IF HMG WOULD BE WILLING TO DO SO. DETAILS
FOLLOW SEPTEL. KISSINGER

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